

Contracts

DDA 79-1336/4

5 DEC 1979

MEMORANDUM FOR: Director of Finance
Director of Logistics

FROM: Don I. Wortman
Deputy Director for Administration

SUBJECT: Audit Services for CIA Industrial Contracts

1. As you will recall, I asked, a number of months ago, whether we could afford to maintain the industrial audit capabilities contained in Finance's Commercial Systems and Audit Division (CSAD). The Defense Contract Audit Agency (DCAA) had previously suggested that they provide direct reimbursable contract audit support in lieu of our maintaining an independent, internal capability.

2. Each of you reviewed this issue, and I have now done so as well. It is my belief that there is nothing to be gained by eliminating our internal industrial contract audit capability and relying entirely on the contract services of DCAA. On the contrary, I am satisfied that the CSAD capability is a necessary one that ensures the Agency the responsiveness and flexibility needed to accomplish important intelligence responsibilities in a timely and effective manner. The depth and timeliness of reimbursed support provided by DCAA to other federal departments and agencies would not, in my view, be adequate for CIA needs.

3. In the course of reviewing this matter, I have acquired an appreciation for the responsive contribution being made by CSAD personnel-- both those within CSAD and those on rotational assignment elsewhere in the Agency. Please commend them for a job well done.

Don I. Wortman

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27 JUN 1979

MEMORANDUM FOR: Deputy Director for Administration

VIA: Director of Logistics
Director of Finance

FROM: [REDACTED]
Chairman, Agency Contract Review Board

SUBJECT: Audit Services for CIA Industrial Contracts [REDACTED]

REFERENCES: (a) Ltr to OFPP, dtd 17 May 79, fm DDCI [REDACTED]
(b) Memo to DC/PMS/OL, dtd 19 Jun 79, fm C/CCS/GDO, same subject [REDACTED]
(c) Memo to Chairman, ACRB, dtd 22 May 79, fm C/SS/OL, same subject [REDACTED]

1. Introduction

The CIA Contract Review Board (ACRB) advises and assists the Director of Logistics (D/L) in exercising the procurement authority delegated to him by the Director of Central Intelligence as Agency Head. The duties and responsibilities of the Board are set forth in Headquarters [REDACTED]

While the primary function of the Board is to review individual procurement actions, its charter is broad enough to include the examination of policy issues brought to its attention and to make recommendations with regard thereto. The offer by the Defense Contract Audit Agency (DCAA) to expand its audit services to include audit support for Agency funded contracts is considered to be a policy matter which falls within the purview of the ACRB. This memorandum will address, in summary fashion, the many issues involved in considering the DCAA proposal and will provide the ACRB's recommendation regarding whether the offer made by DCAA should be accepted. [REDACTED]

2. Background Information

a. CIA issues industrial contracts for acquisition of goods and services in support of its mission. The contract range from very small purchase orders for low dollar off-the-shelf commercial items to relatively high dollar contracts for [REDACTED]

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b. The Agency has, since its inception, maintained an industrial contract audit capability to facilitate negotiation, administration and settlement of Agency contracts. This capability currently is represented by the Commercial Systems and Audit Division (CSAD) within our Office of Finance, which is responsible for audit of offerors' proposals, as well as interim and final audit of industrial contracts executed in accordance with procurement authority delegated to the D/L. OF/CSAD currently provides audit services for nine CIA contracting elements. Liaison auditors are assigned to three contracting elements for preaward audit services. ☐

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c. In addition to those contracts dependent on procurement authority delegated to the D/L, there is a delegation of procurement authority which flows from the DCI to the senior contracting officer for National Programs, who is assigned to the Office of Development and Engineering within DDS&T. Audit services for contracts executed by the National Programs contracting officer are provided by a special segment (Detachment A) of the DCAA. The DCAA is an element of the Department of Defense and has approximately 3,400 auditors. For our National Programs contracts, the DCAA performs the entire audit function. The results of their audits are provided to CIA contracting officers as advisory reports in accordance with the Defense Acquisition Regulation. ☐

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d. DCAA has now proposed to expand its services to the Agency by performing audit services on Agency contracts executed under the authority flowing from the D/L. Such services would be provided on a reimbursable basis, based on actual audit hours billed at the prevailing interagency rate. Travel and per diem expenses required to accomplish audits of a non-routine nature would be billed separately. ☐

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3. Discussion of Issues

a. Third Party Privy to CIA Contracts

The principal concern the ACRB had when considering DCAA's proposal was the potential impact acceptance of the offer would have on this Agency's historical position with regard to third party privy to its contracts. The CIA has, in many forums, taken the position that third party organizations, such as the General Accounting Office, the GPPF, and the Small Business Administration, should not have access to its procurement actions. The basis for this

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position stems from security and operational considerations. In the majority of our contractual relationships, public acknowledgment of CIA involvement could seriously jeopardize the security of related projects and compromise intelligence sources and methods. Access to contract and project information by organizations outside the span of control of the DCI, unless absolutely required to carry out the mission of the Agency, has always been viewed as not in keeping with the Director's statutory responsibility to protect intelligence sources and methods. The latest example of the CIA's position in this regard is set forth in reference A, which is attached for your information. []

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The contract audit function is an integral part of the overall procurement process, and performance of this function within the Agency involves familiarization with, and access to, classified procurement and program information. Allowing DCAA to audit these Agency funded contracts would be inconsistent with the CIA's stated position regarding non-access to our procurement activities by third parties, would significantly erode the Agency's defense of that position, and would raise serious questions regarding the Agency's ability to prevent unauthorized disclosure of classified procurement and program sensitive information. []

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Attached hereto as reference B is a copy of a memorandum from the Chief, Central Cover Staff, Directorate of Operations (C/CCS/DDO), regarding this matter. The C/CCS/DDO indicated that he did not believe that the Agency's special procurement authorities and statutory responsibilities would permit wholesale turn-over to the DCAA of the CIA contract auditing requirements. However, he did indicate that he believed it would be acceptable on a contract by contract basis to allow DCAA to perform audit services, especially in the cases of unclassified contracts where vouchered funds are used. Based upon statistics from the CIA's contract information system (CONIF), it is estimated that approximately 12 per cent of the Agency's auditable procurement actions would fall in that category. The ACRB did not believe the number of auditable contracts falling in this category warranted establishing a second source for audit support. []

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b. Personnel Security

Security is another issue which concerned the ACRB. Reference C attached hereto addresses the security issue. It was noted that DCAA personnel are not required to meet the same security standards as CIA employees. For example, they are not required to submit to a polygraph interview. The ACRB believed that the points made in the reference C memorandum were valid and should not be ignored. ☐

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c. Setting of Precedence

The audit function is only one of several functions required to be performed as a part of the procurement process. Some of the other functions include contract administration, inspection and quality control, property administration, and industrial security. In the view of the ACRB, the carving out of the audit function and having that service performed by an outside agency would only lead to consideration for transferring responsibility for the performance of some of the other aforementioned functions to other Government agencies. Such transfers of responsibility would further increase the problems associated with the protection of intelligence sources and methods. ☐

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d. Responsiveness to Agency Requirements

It is the opinion of the ACRB that responsiveness to Agency requirements for audit services would suffer if DCAA's proposal were accepted. This conclusion was reached based upon the reasonable assumption that if the audit services are to be performed by an outside Agency, which has customers other than CIA, some diminution in services would undoubtedly result. However, the ACRB is not in a position to gauge the extent of any projected decrease in the effectiveness of audit support. It should be noted that response time becomes extremely critical towards the end of the fiscal year. ☐

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